

DI.SEA.DE – DEMS LUNCH SEMINAR SERIES

March 13th 2019, h 12:00-13:30

Building U7, IV Floor, Room n. 4064,
Sala del Consiglio della Scuola di Economia e Statistica

“IDENTIFYING FINANCIAL CONSTRAINTS FROM PRODUCTION DATA”

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ABSTRACT

Farre-Mensa and Ljungqvist (2016, RFS) argue that the existing and widely used measures of financial constraints are inadequate and fail to measure financial constraints. We propose a new methodology to recover firm-year level financial constraints from firms' production behavior. In particular, we measure financial constraints as the profitability that firms forgo when binding constraints on input costs impede them from using the optimal level of inputs and technology. We validate our measure using a unique dataset combining firms' balance sheets from 2005 to 2015 in five Euro Area countries with survey information on firms' self-reported financial constraints, such as actual loan rejections or discouragement.

Further, we show that our measure recovers the country-specific trends of financial constraints during the financial crisis and the sovereign debt crisis, and correlates only weakly with the three most popular indices of financial constraints.

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